

STATE OF SOUTH CAROLINA

(Caption of Case)

Progress Energy Carolinas, Inc.'s
Motion for Partial Waiver of
Commission Rules 103-331 and 103-336

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2009 - 168 - E

(Please type or print)

Submitted by: Catherine E. HeigelSC Bar Number: 9268

Address: 526 S. Church Street, EC03T
Charlotte, NC 28202

Telephone: 704-382-8123Fax: 704-382-5690

Other: _____

Email: catherine.heigel@duke-energy.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

- ☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☒ Other: Direct Testimony and Exhibit of Barbara Yarbrough

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input checked="" type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2009-168-E

In the Matter of:

Progress Energy Carolinas, Inc.'s
Motion for Partial Waiver of
Commission Rules 103-331 and 103-336

)
)
)
)
)
)

**DIRECT TESTIMONY OF
BARBARA G. YARBROUGH
FOR DUKE ENERGY CAROLINAS, LLC**

1 **Q. PLEASE STATE YOUR NAME, ADDRESS ,AND POSITION WITH DUKE**
2 **ENERGY CAROLINAS.**

3 A. My name is Barbara G. Yarbrough. My business address is 526 South Church
4 Street, Charlotte, North Carolina. I am Rates Director for Duke Energy Carolinas,
5 LLC (referred to hereinafter as “Duke Energy Carolinas” or the “Company”). I have
6 responsibility for assisting in the development, implementation, and proper
7 administration of the Company’s rate schedules and service regulations, as well as
8 administering the Public Service Commission of South Carolina’s (the
9 “Commission”) Rules and Regulations. I also am responsible for responding to
10 customer inquiries including those directed to the South Carolina Office of
11 Regulatory Staff (“ORS”).

12 **Q. PLEASE STATE BRIEFLY YOUR EDUCATION AND PROFESSIONAL**
13 **EXPERIENCE.**

14 A. I am a graduate of the University of North Carolina at Greensboro. I joined Duke
15 Power Company (now known as Duke Energy Carolinas) in 1974, and since 1979 I
16 have held several positions in the Company’s Rates and Regulatory Affairs
17 Department. I have testified before the North Carolina Utilities Commission (the
18 “NCUC”) and this Commission in complaint and other proceedings.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. The purpose of my testimony is to (1) describe the partial waiver of the
21 Commission’s Rule 103-331 currently in effect for Duke Energy Carolinas, (2)
22 provide an overview of the Company’s experience with the waiver, (3) request
23 continuation of the partial waiver of Rule 103-331, and (4) request a waiver of Rule

1 103-336.

2 **Q. PLEASE DESCRIBE THE RULES REGARDING CUSTOMER DEPOSITS**
3 **IN SOUTH CAROLINA.**

4 A. Rule 103-331 (3) allows electric utilities to require an existing customer to post a
5 deposit or other form of security to guarantee payment of bills for service if the
6 customer has had two consecutive 30-day arrears or more than two non-consecutive
7 30-day arrears in the past 24 months. Rule 103-336 provides that deposits shall be
8 refunded completely with interest after two years unless the customer has had two
9 consecutive 30-day arrears, or more than two non-consecutive 30-day arrears, in the
10 past 24 months.

11 **Q. DOES DUKE ENERGY CAROLINAS HAVE A PARTIAL WAIVER OF**
12 **RULE 103-331 APPROVED BY THE COMMISSION?**

13 A. Yes, in Order No. 2004-417 the Commission approved the Company's request for a
14 partial waiver of Rule 103-331 on an experimental basis in Docket No. 2004-169-E.
15 As required by Order No. 2004-417, the Company filed a report of its experience
16 with the waiver on September 27, 2005. In conjunction with filing the report, the
17 Company requested that the partial waiver of Rule 103-331 be continued and in
18 Order No. 2005-600 the Commission approved the partial rule waiver on a non-
19 experimental basis.

20 **Q. WHY DID THE COMPANY REQUEST A PARTIAL WAIVER OF RULE**
21 **103-331?**

22 A. In the four years prior to requesting the partial waiver, the Company had
23 experienced a significant increase in the volume of accounts written off as

1 uncollectible. Many of these uncollectible accounts came from nonresidential
2 customers with large accounts or large numbers of accounts, and the lack of
3 available guarantee requirements for these established customers under Rule 103-
4 331 was a significant contributor to write-offs in the nonresidential classes. Under
5 the existing rules, even customers paying within terms, but having financial
6 difficulty can be indebted for two months' service without the utility having the
7 ability to secure the account or discontinue service.

8 Experience indicates that although the customer may be paying the electric
9 bill on a regular basis because it needs electricity on a day-to-day basis, its financial
10 condition with other customers or suppliers may be rapidly deteriorating and
11 bankruptcy may be imminent. Unlike other customers or suppliers, no charges for
12 electric service are made until after the electricity already has been used, and the
13 customer continues to use electricity until or after that bill becomes past due. The
14 Company also believed, at a minimum, that the credit worthiness criteria under this
15 rule should better match payment provisions in the tariffs and other rules.
16 Specifically, the term "30-day arrears" as used in Rule 103-331 does not match the
17 provisions of the nonresidential tariffs, which provide that bills are past due after 15
18 days, nor Rule 103-339, which allows late payment charges to be assessed after 25
19 days. As a result, customers currently do not have sufficient incentive to pay soon
20 enough after billing to mitigate the credit risk.

21 **Q. PLEASE DESCRIBE THE PARTIAL WAIVER OF RULE 103-331.**

22 A. The partial waiver of Rule 103-331 allows Duke Energy Carolinas to look more
23 broadly at credit worthiness by using external credit data in addition to internal

1 credit data. The Company uses the following information in analyzing credit
2 worthiness for nonresidential customers:

- 3 • Customer's utility payment record;
- 4 • Key financial information and ratios, including but not limited to;
 - 5 ○ Net Income
 - 6 ○ Gross Profit Margin
 - 7 ○ Cash Flow
 - 8 ○ Availability of Financing
 - 9 ○ EBIT/Interest Expense
 - 10 ○ Total Debt to Total Capital;
- 11 • Public debt ratings and outlook forecasts from Standard and Poor's,
12 Moody's, Fitch, or other available credit data providers;
- 13 • Information from Dun & Bradstreet regarding payment trends with other
14 creditors and suppliers; and
- 15 • Business profiles and industry analysis.

16 As shown on Yarbrough Exhibit No. 1, the Company currently uses the internal and
17 external data to formulate an Internal Risk Rating on a scale of one to seven
18 (previously one through eight) in accordance with Duke Energy Corporate Credit
19 Guidelines, with a risk of one being lowest and seven being highest.

20 **Q. HOW IS THE RATING THEN USED TO DETERMINE WHETHER**
21 **SECURITY IS REQUIRED?**

22 A. The data is reviewed on a regular basis. If the Internal Risk Rating is five or less, no
23 action is taken; if the rating is six or higher, we make a further determination about

1 whether security is necessary. On Duke Energy Carolinas' rating scale, an Internal
2 Risk Rating of six generally equates to a Standard and Poor's below investment
3 grade rating of B+, B, or B-. As a part of this evaluation we remain sensitive to
4 customers in difficult economic times, and as indicated to the Commission when the
5 waiver was originally approved, we will make every attempt to find alternatives to a
6 cash deposit equal to the highest two-consecutive months' bills. We do not rely
7 solely on a drop in a customer's rating. Typically, our initial step is to request that
8 the customer provide Duke Energy Carolinas with specific financial data from the
9 company. Duke Energy Carolinas recognizes that any customer can have a bad
10 quarter. Consequently, if the company's financials indicate an anomaly or show a
11 financial recovery or other positive sign going forward, and the customer is paying
12 its bills in a timely manner, we may simply continue to monitor the customer's
13 account without requesting additional security. For example, we do not rely unduly
14 on a downturn in a particular industry if our customer in that industry is less
15 impacted. If the financial indicators for a particular customer are not positive, we
16 attempt to work with the customer on security options that do not involve the
17 payment of a two-month cash deposit. These options include bank letters of credit,
18 surety bonds, advance payment, reduced deposits, payment plans for providing the
19 deposit, or some combination of these choices.

20 **Q. WHAT EXPERIENCE HAS THE COMPANY HAD WITH THE PARTIAL**
21 **WAIVER OF RULE 103-331?**

22 A. We believe that the waiver has been extremely successful and the results show that
23 we have achieved the right balance between minimizing the hardship of a security

1 deposit request on customers while minimizing the burden on the general body of
2 rate payers from uncollectibles.

3 **Q. DO YOU HAVE ANY DATA ON THE SUCCESS OF THE WAIVER OF**
4 **RULE 103-331?**

5 A. Yes. During 2007, 22 large nonresidential customers or nonresidential customers
6 with large numbers of accounts, with a total monthly (30-day) revenue exposure of
7 \$5.5 million met the criteria for review of credit worthiness under the guidelines of
8 the waiver. Of the 22 reviewed, 20 were not required to provide security after Duke
9 Energy Carolinas reviewed their financials; one was placed on an accelerated
10 payment plan; and one was assessed a deposit. The one for which the deposit was
11 collected did file bankruptcy and a loss was avoided.

12 In 2008, 19 large nonresidential customers were reviewed with a monthly
13 revenue exposure of approximately \$ 5.3 million. Of the 19 reviewed, 16 were not
14 required to provide security; one was requested to provide security but did not
15 provide the security before filing bankruptcy. Of the remaining two, one provided a
16 surety bond and one paid a cash deposit. Both of these customers also filed
17 bankruptcy in 2008. It is noteworthy that the deposit collected from one of the two
18 customers that provided security was \$5.2 million of which \$4.7 million was applied
19 to the pre-petition debt and the remainder of the deposit is being held on the post
20 petition account. This \$4.7 million potential loss was more than the total amount of
21 net charge offs in 2008 from all other customers in South Carolina. If Duke Energy
22 Carolinas had not had the ability to collect a deposit from this particular customer
23 pursuant to the rule waiver, the Company's 2008 charge-offs in South Carolina

1 would have been higher by 146%.¹

2 **Q. WHAT HAS THE COMPANY'S EXPERIENCE WITH THE RULE**
3 **WAIVER BEEN IN 2009?**

4 A. Because of the difficult economic times, we have reviewed a few more customers
5 than in prior years, but we continue to work with customers. Through June 2009,
6 we have reviewed 25 customers. Of the 25 customers, 16 were not required to
7 provide security; three provided a surety bond; one is on an advanced payment plan;
8 two have been billed a deposit; two paid a deposit; and we are still working with the
9 remaining customer. The results to date are that the two customers that paid a
10 deposit have both filed bankruptcy. Together, the deposits for these two customers
11 totaled \$898,000, which represents amounts that will not have to be charged off as
12 uncollectible. The amount of uncollectibles through June 2009 was \$2,411,884 and
13 without these two deposits, the charged off expense in South Carolina would have
14 been 37% higher during the first six months of this year.

15 **Q. HOW DOES THE WAIVER OF RULE 103-331 IN SOUTH CAROLINA**
16 **COMPARE WITH THE COMPANY'S DEPOSIT COLLECTION**
17 **PRACTICES IN NORTH CAROLINA?**

18 A. NCUC Rule 12-3 permits Duke Energy Carolinas to require customers to re-
19 establish their credit pursuant to NCUC Rule 12-2 if the conditions on which the
20 customer's credit was originally established "have materially changed." The
21 Company's rule waiver in South Carolinas has allowed it to review and treat
22 customer accounts in South Carolina and North Carolina the same. This is
23 especially important for customers that have accounts in both states. Some of the

¹ The total amount of uncollectibles in South Carolina during 2008 was \$ 3,208,257.

1 same customers whose accounts were secured in South Carolina also were secured
2 in North Carolina and losses prevented.

3 **Q. IN THOSE CASES WHERE A DEPOSIT IS REQUIRED, AND UNDER THE**
4 **PROVISIONS OF THE WAIVER OF RULE 103-336 SOUGHT BY THE**
5 **PARTIES IN THIS PROCEEDING, WHEN WOULD THE CUSTOMER'S**
6 **DEPOSIT BE RETURNED?**

7 A. Consistent with the terms of the Company's existing rule waiver, Duke Energy
8 Carolinas proposes to continue to review customer accounts, and when the customer
9 achieves and maintains an Internal Risk Rating of five or lower for at least two
10 consecutive quarters, the Company will evaluate at that time whether to return the
11 deposit to the customer. The Company is requesting that the Commission waive the
12 requirement of Rule 103-336 that customer deposits be returned after two years if
13 the customer has not had two consecutive 30-day arrears or more than two non-
14 consecutive 30-day arrears during a 24-month period. As I explained above, our
15 experience indicates that although the customer may be paying its electric bill on a
16 regular basis because of the need for electricity on a day-to-day basis, its financial
17 condition with other customers or suppliers may be rapidly deteriorating and
18 bankruptcy may be imminent. As a result, the Company believes the same reasons
19 that justify a waiver of Rule 103-331 also apply to Rule 103-336.

20 **Q. IS THE CONTINUATION OF THE COMPANY'S EXISTING WAIVER OF**
21 **RULE 103-331 IN THE PUBLIC INTEREST?**

22 A. Yes, the Company's experience with the rule waiver over the past two and one-half
23 years shows that it is securing the right accounts. We continue to offer alternative

1 options to a cash deposit and remain sensitive to customer needs. Our objective is to
2 help these customers stay in business while protecting the rest of our customers from
3 excessive losses. We believe that continuation of the waiver of Rule 103-331 for
4 Duke Energy Carolinas is in the public interest and is consistent with prudent
5 receivables management practices. We also believe Duke Energy Carolinas' proven
6 success with the rule waiver makes it is appropriate to extend the waiver at this time
7 to all investor-owned utilities operating in South Carolina.

8 **Q. DO OTHER INVESTOR-OWNED UTILITIES IN SOUTH CAROLINA USE**
9 **AN INTERNAL RISK RATING SYSTEM SIMILAR TO DUKE ENERGY**
10 **CAROLINAS?**

11 A. Yes, it is my understanding that both South Carolina Electric & Gas Company and
12 Progress Energy Carolinas, Inc. perform similar risk analyses, but may use slightly
13 different credit sources and evaluation techniques. We do not believe that the
14 companies' credit evaluation practices need to be identical as long as the practices
15 are generally consistent. To help ensure overall consistency in process and
16 application of a waiver of Rule 103-331 for all investor-owned utilities in South
17 Carolina, Duke Energy Carolinas proposes that the companies provide ORS with a
18 copy of their respective risk rating criteria upon request by ORS.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

20 A. Yes, it does.

DUKE ENERGY CAROLINAS, LLC Internal Risk Ratings

Internal Risk Rating	S&P Scale	Moody's Scale	General Description
1	AAA	Aaa	Exceptional degree of stability, with strong ability to pay financial obligations; significant size and strength; high quality assets
2	AA- to AA+	Aa3 to Aa1	Highly stable; modest financial leverage with ample debt capacity; history of strong earnings and cash flow; high quality assets
3	A- to A+	A3 to A1	Strong financial position but more susceptible to economic changes; strong cash flow and interest coverage levels; good quality assets
4	BBB- to BBB+	Baa3 to Baa1	Satisfactory earnings, cash flow and interest coverage; higher degree of susceptibility to cyclical trends; assets and balance sheet are reasonably sound although financial leverage may be above average
5	BB- to BB+	Ba3 to Ba1	Higher degree of volatility of earnings, cash flow, interest and overall performance; marginal interest coverage levels; below average asset quality
6	B- to B+	B3 to B1	Earnings and cash flow are strained and outlook is difficult; financially overleveraged with minimal sources of financing; adverse business conditions would likely impair payment capacity
7	D to CCC+	D to C1	Poor quality in most respects; ability to pay is questionable and payment defaults may have occurred; customer may have filed bankruptcy petition.

CERTIFICATE OF SERVICE

I, Catherine E. Heigel, hereby certify that a copy of Duke Energy Carolinas, LLC's Direct Testimony and Exhibit of Barbara Yarbrough have been served by electronic transmittal or by depositing a copy in the United States Mail, first class postage prepaid, properly addressed to:

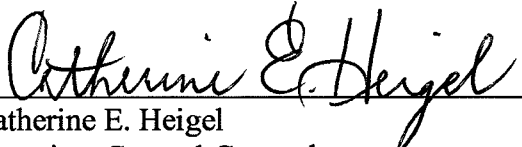
Shealy Boland Reibold, Counsel
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

K. Chad Burgess, Senior Counsel
South Carolina Electric & Gas Company
1426 Main Street, MC 130
Columbia, SC 29201

Len S. Anthony, General Counsel
Progress Energy Carolinas, Inc.
Post Office Box 1551
Raleigh, NC 27602

M. John Bowen, Esq.
Margaret M. Fox, Esq.
McNair Law Firm
Post Office Box 11390
Columbia, SC 29211

This the 20th day of August 2009.



Catherine E. Heigel
Associate General Counsel
Duke Energy Corporation
526 S. Church Street, EC03T
Charlotte, North Carolina 28202
Tel: 704-382-8123
Email: catherine.heigel@duke-energy.com